



## **REPORT OF THE AUDITOR-GENERAL TO THE NORTH WEST PROVINCIAL LEGISLATURE AND THE COUNCIL OF THE TSWAING LOCAL MUNICIPALITY**

### **REPORT ON THE FINANCIAL STATEMENTS**

#### **Introduction**

1. I was engaged to audit the financial statements of the Tswaing Local Municipality set out on pages [XX] to [XX], which comprise the statement of financial position as at 30 June 2014, the statement of financial performance, the statement of changes in net assets, the cash flow the year then statement and the statement of comparison of budget information with actual information for ended, as well as the notes, comprising a summary of significant accounting policies and other explanatory information.

#### **Accounting officer's responsibility for the financial statements**

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP), the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2013 (Act No. 2 of 2013) (DoRA), and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

#### **Auditor-general's responsibility**

3. My responsibility is to express an opinion on the financial statements based on conducting the audit in accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), the general notice issued in terms thereof and International Standards on Auditing. Because of the matters described in the basis for disclaimer of opinion paragraphs, however, I was unable to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

#### **Basis for disclaimer of opinion**

##### **Property, plant and equipment**

4. I was unable to obtain sufficient appropriate audit evidence for a difference of R20 566 643 in property, plant and equipment between the financial statements and the general ledger due to the lack of proper accounting records. Furthermore, I was unable to obtain sufficient appropriate audit evidence for infrastructure of R202 542 998 (2013: R217 153 996) and land and buildings of R81 532 460 (2013: R75 683 764) included in property, plant and equipment disclosed in the financial statements, as the information and explanations I considered necessary for the valuation of these assets, was not available. I was unable to confirm these assets by alternative means. Consequently, I was unable to determine whether any adjustments to property, plant and equipment of R369 723 070 (2013: R334 558 824) disclosed in the statement of financial position and the depreciation of R19 799 568 (2013: R19 470 437) disclosed in the statement of financial performance, were necessary.
5. I was unable to obtain sufficient appropriate audit evidence for work in progress, as the information and explanations I considered necessary to confirm the work in progress, was not available. This was due to a lack of proper record-keeping by the municipality. I was unable to confirm work in progress by alternative means. Consequently I was unable to determine

whether any adjustment to work in progress of R76 681 042 (2013: R35 823 579) disclosed in note 4 to the financial statements, was necessary.

### **Investment property**

6. I was unable to obtain sufficient appropriate audit evidence for investment property, as the information and explanations I considered necessary for the valuation of these properties and whether these investment properties were all accounted for, was not available. I was unable to confirm the investment property by alternative means. Consequently I was unable to determine whether any adjustment to investment property of R32 072 780 (2013: R32 072 780) disclosed in note 3 to the financial statements, was necessary.

### **VAT payable**

7. I was unable to obtain sufficient appropriate audit evidence for adjustments of R13 146 198 to the VAT payable in the prior year, due to a lack of proper record-keeping by the municipality. I was unable to confirm these adjustments by alternative means. Consequently, I was unable to determine whether any adjustment to VAT payable of R6 355 800 (2013: R11 812 744) disclosed in the statement of financial position and note 13 to the financial statements, was necessary.

### **Revenue**

8. I was unable to obtain sufficient appropriate audit evidence that management properly charged and accounted for the sale of electricity and water, as the information and explanations considered necessary to confirm these revenues, was not available. This was due to a lack of proper established internal controls over the billing process of services prior to the initial entry into the financial records. I was unable to confirm these revenue items by alternative means. Consequently I was unable to determine whether any adjustments to the sale of electricity of R29 441 504 (2013: R27 309 565) and sale of water of R5 198 229 (2013: R5 704 655) disclosed in note 17 to the financial statements, were necessary.

### **Trade and other receivables**

9. I was unable to obtain sufficient appropriate audit evidence for trade and other receivables from exchange transactions, as the information and explanations I considered necessary to confirm these receivables, was not available. This was due to a lack of proper record-keeping by the municipality. I was unable to confirm trade and other receivables from exchange transactions by alternative means. Consequently, I was unable to determine whether any adjustments to trade and other receivables from exchange transactions of R12 997 486 (2013: R13 482 850) disclosed in the statement of financial position and note 8 to the financial statements as well as debt impairment of R26 584 247 (2013: R34 240 518) disclosed in the statement of financial performance and note 23 to the financial statements, were necessary.

### **Commitments**

10. The municipality did not disclose all commitments as required by SA Standards of GRAP, GRAP 17, *Property, plant and equipment* due to a lack of proper record keeping. Capital commitments of R13 245 025 (2013: R42 100 000) identified during the audit was not included in the capital commitments of R6 127 644 (2013: R15 557 508) included in total commitments disclosed in note 30 to the financial statements. As the municipality did not quantify the full extent of these commitments, it was impracticable to determine the resultant understatement of these commitments.

### **Accumulated surplus**

11. I was unable to obtain sufficient appropriate audit evidence for adjustments to the accumulated surplus in the prior year due to a lack of proper record keeping. I was unable to confirm these adjustments by alternative means. Furthermore, I was unable to obtain sufficient appropriate audit evidence for the accumulated surplus for the current and prior period taking into account the misstatements identified and set out in this report. Consequently, I was unable to



determine whether any adjustment to the accumulated surplus of R266 231 525 (2013: R242 210 855) disclosed in the statement of financial position, was necessary.

### **Irregular expenditure**

12. Section 125 of the MFMA requires that the financial statements include particulars of all irregular expenditure incurred during the current and the prior financial year. Contrary to this requirement, payments were identified during the current and previous audits which were made in contravention of the supply chain management regulations but not disclosed as irregular expenditure. As the municipality did not quantify the full extent of the irregular expenditure, it was impracticable to determine the resultant understatement of irregular expenditure of R12 085 714 (2013: R36 184 877) disclosed in note 40 to the financial statements.

### **Fruitless and wasteful expenditure**

13. Section 125 of the MFMA requires that the financial statements include particulars of all fruitless and wasteful incurred during the current and the prior financial year. Contrary to this requirement, payments were identified during the current and previous audits which were made in vain but not disclosed as fruitless and wasteful expenditure. As the municipality did not quantify the full extent of the fruitless and wasteful expenditure, it was impracticable to determine the resultant understatement of fruitless and wasteful expenditure of R1 417 465 (2013: R1 465 213) disclosed in note 39 to the financial statements.

### **Cash Flow Statement**

14. I was unable to obtain sufficient appropriate audit evidence that the cash flow statement is fairly presented for the current and prior year due to a lack of substantiating accounting records. I was unable to confirm the fair presentation of the cash flow statement by alternative means. Consequently, I was unable to determine whether any adjustments to the cash flow statement were necessary.

### **Material losses**

15. The municipality did not disclose material losses on the supply of water and electricity in the prior year and water in the current year, as required by section 125(2)(d)(i) of the MFMA, in note 32 to the financial statements. Due to a lack of properly implemented monitoring controls, I was unable to determine the full extent of the non-disclosure in the financial statements as it was impracticable to do so.

### **Disclaimer of opinion**

16. Because of the significance of the matters described in the basis for disclaimer of opinion paragraphs, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, I do not express an opinion on the financial statements.

### **Emphasis of matters**

17. I draw attention to the matters below. My opinion is not modified in respect of these matters.

### **Restatement of corresponding figures**

18. As disclosed in note 34 to the financial statements, the corresponding figures for 2013 have been restated as a result of an error discovered during 2014 in the financial statements of the Tswaing Local Municipality at, and for the year ended, 30 June 2013.

### **Unauthorised expenditure**

19. As disclosed in note 38 to the financial statements, unauthorised expenditure of R79 503 528 was incurred in the current year and unauthorised expenditure of R59 792 477 from prior years had not yet been dealt with in accordance with section 32 of the MFMA.

## **Additional matters**

20. I draw attention to the matters below. My opinion is not modified in respect of these matters.

## **Unaudited disclosure notes**

21. In terms of section 125(2)(e) of the MFMA the municipality is required to disclose particulars of non-compliance with the MFMA. This disclosure requirement did not form part of the audit of the financial statements and accordingly I do not express an opinion thereon.

## **Unaudited supplementary schedules**

22. The supplementary information set out on pages [XX] to [XX] does not form part of the financial statements and is presented as additional information. I have not audited these schedules and accordingly I do not express an opinion thereon.

## **REPORT ON OTHER LEGAL AND REGULARITY REQUIREMENTS**

23. In accordance with the PAA and the general notice issued in terms thereof, I report the following findings on the reported performance information against predetermined objectives for the selected development priorities presented in the annual performance report, non-compliance with legislation as well as internal control. The objective of my tests was to identify reportable findings as described under each subheading but not to gather evidence to express assurance on these matters. Accordingly, I do not express an opinion or conclusion on these matters.

## **Predetermined objectives**

24. I performed procedures to obtain evidence about the usefulness and reliability of the reported performance information for the following selected development priorities presented in the annual performance report of the municipality for the year ended 30 June 2014:

- Development priority 1: Roads and transport on pages [XX] to [XX]
- Development priority 2: Waste management on pages [XX] to [XX]
- Development priority 3: Electricity on pages [XX] to [XX]
- Development priority 4: Water on pages [XX] to [XX]
- Development priority 5: Waste water management on pages [XX] to [XX]

25. I evaluated the reported performance information against the overall criteria of usefulness and reliability.

26. I evaluated the usefulness of the reported performance information to determine whether it was presented in accordance with the National Treasury's annual reporting principles and whether the reported performance was consistent with the planned objectives. I further performed tests to determine whether indicators and targets were well defined, verifiable, specific, measurable, time bound and relevant, as required by the National Treasury's Framework for managing programme performance information (FMPPI).

27. I assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.

28. The material findings in respect of the selected objectives are as follows:

## **Development priority 1: Roads and transport**

### **Usefulness of reported performance information**

29. The FMPPI requires that indicators be well defined and verifiable and targets be specific, measureable and time bound:

- All of the indicators were not well defined.
- All of the indicators were not verifiable.
- A total of 33% of the targets were not specific.

- I could not measure the required performance for 33% of the targets

This was because management was not properly trained in the requirements of the FMPPI and inadequate capacity within the technical services department.

### **Reliability of reported performance information**

30. The FMPPI requires auditees to have appropriate systems to collect, collate, verify and store performance information to ensure valid, accurate and complete reporting of actual achievements against planned objectives, indicators and targets. Adequate and reliable corroborating evidence could not be provided for all of the targets to assess the reliability of the reported performance information. The auditee's records did not permit the application of alternative audit procedures. The indicators were not well defined and could not be verified.

### **Development priority 2: Waste management**

#### **Usefulness of reported performance information**

31. The FMPPI requires that indicators be well defined and verifiable and targets be specific, measureable and time bound. All indicators were not verifiable or well defined and all targets were not specific, measurable or time bound. This was because management was not properly trained in the requirements of the FMPPI and inadequate capacity within the technical services department.

#### **Reliability of reported performance information**

32. The FMPPI requires auditees to have appropriate systems to collect, collate, verify and store performance information to ensure valid, accurate and complete reporting of actual achievements against planned objectives, indicators and targets. Adequate and reliable corroborating evidence could not be provided for all of the targets to assess the reliability of the reported performance information. The auditee's records did not permit the application of alternative audit procedures. The indicators were not well defined and could not be verified.

### **Development priority 3: Electricity**

#### **Usefulness of reported performance information**

33. The FMPPI requires that indicators be well defined and verifiable and targets be specific measurable and time bound:
- A total of 60% of the targets were not specific.
  - I could not measure the required performance for a total of 60% of the targets.
  - A total of 60% of the targets were not time bound.

This was because management was not properly trained in the requirements of the FMPPI and inadequate capacity within the technical services department.

#### **Reliability of reported performance information**

34. The FMPPI requires auditees to have appropriate systems to collect, collate, verify and store performance information to ensure valid, accurate and complete reporting of actual achievements against planned objectives, indicators and targets. Adequate and reliable corroborating evidence could not be provided for all of the targets to assess the reliability of the reported performance information. The auditee's records did not permit the application of alternative audit procedures. The indicators were not well defined and could not be verified.

### **Development priority 4: Water**

#### **Usefulness of reported performance information**

35. The FMPPI requires that indicators be well defined and verifiable and targets be specific measureable and time bound:

- A total of 40% of the indicators were not well defined.
- A total of 40% of the indicators were not verifiable.
- A total of 60% of the targets were not specific.
- I could not measure the required performance for a total of 60% of the targets.
- A total of 80% of the targets were not time bound.

This was because management was not properly trained in the requirements of the FMPPI and inadequate capacity within the technical services department.

### **Reliability of reported performance information**

36. The FMPPI requires auditees to have appropriate systems to collect, collate, verify and store performance information to ensure valid, accurate and complete reporting of actual achievements against planned objectives, indicators and targets. Adequate and reliable corroborating evidence could not be provided for all of the targets to assess the reliability of the reported performance information. The auditee's records did not permit the application of alternative audit procedures. The indicators were not well defined and could not be verified

### **Development priority 5: Waste water management**

#### **Usefulness of reported performance information**

37. The FMPPI requires that indicators be well defined and verifiable and targets be specific measurable and time bound. All indicators were not verifiable or well defined and all targets were not specific, measurable or time bound. This was because management was not properly trained in the requirements of the FMPPI and inadequate capacity within the technical services department.

#### **Reliability of reported performance information**

38. The FMPPI requires auditees to have appropriate systems to collect, collate, verify and store performance information to ensure valid, accurate and complete reporting of actual achievements against planned objectives, indicators and targets. Adequate and reliable corroborating evidence could not be provided for all of the targets to assess the reliability of the reported performance information. The auditee's records did not permit the application of alternative audit procedures. The indicators were not well defined and could not be verified.

#### **Additional matter**

39. I draw attention to the following matter:

#### **Achievement of planned targets**

40. Refer to the annual performance report on pages [XX] to [XX] for information on the achievement of the planned targets for the year. This information should be considered in the context of the material findings on the usefulness and reliability of the reported performance information for the selected development priorities reported in paragraphs [XX] to [XX] of this report.

#### **Unaudited supplementary schedules**

41. The supplementary information set out on page [XX] to [XX] does not form part of the annual performance report and is presented as additional information. We have not audited these schedules and, accordingly, we do not express a conclusion thereon

#### **Compliance with laws and regulations**

42. I performed procedures to obtain evidence that the municipality has complied with applicable laws and regulations regarding financial matters, financial management and other related matters. My findings on material non-compliance with specific matters in key applicable laws and regulations as set out in the general notice issued in terms of the PAA are as follows:



## **Strategic planning and performance management**

43. The municipal council did not consult with the local community in the drafting and implementation of the municipality's integrated development plan (IDP), by means of a municipal wide structure for community participation, as required by section 28 of the Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA) and regulation 15(1)(a)(i) of the Municipal planning and performance management regulations (MPPMR).
44. The municipality did not afford the community the opportunity to comment on the final draft of the IDP before adoption, as required by section 42 of the MSA and regulations 9, 13(1), 13(4)(c) and 15(3) of the MPPMR.
45. The performance management system did not provide for steps of improvement where performance targets were not met, as required by section 41(1)(d) of the MSA.
46. Revisions to the service delivery and budget implementation plan were not approved by the council after the approval of the adjustments budget, as required by section 54(1)(c) of the MFMA.
47. The annual performance agreements for the municipal manager and all senior managers are not linked to the measurable performance objectives approved with the budget and to the service delivery budget implementation plan as required in terms of section 53(1)(c)(iii) of the MFMA and section 57(1)(b) of the MSA.
48. The performance management system and related controls were inadequate as it did not describe and represent the processes of performance planning; monitoring; measurement; review and improvement on how it is conducted, organised and managed, including determining the roles of the different role-players, as required by section 38 of the MSA and regulation 7 of the MPPMR.

## **Budget**

49. Expenditure was incurred in excess of the limits of the amounts provided for in the votes of the approved budget, in contravention of section 15 of the MFMA.

## **Annual financial statements, performance and annual reports**

50. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA. Material misstatements identified by the auditors in the submitted financial statements were not adequately corrected and the supporting records could not be provided subsequently, which resulted in the financial statements receiving a disclaimer audit opinion.
51. The 2012/13 annual report was not tabled in the municipal council within seven months after the end of the financial year, as required by section 127(2) of the MFMA.
52. An oversight report, containing comments on the annual report, was not adopted by council within two months from the date on which the 2009/10; 2010/2011 and 2012/2013 annual report was tabled, as required by section 129(1) of the MFMA.

## **Audit committee**

53. The audit committee did not advise the council on matters relating to internal financial control and internal audits as required by section 166(2)(a) of the MFMA.
54. The audit committee did not advise the council on matters relating to the adequacy, reliability and accuracy of financial reporting and information, as required by section 166(2)(a)(iv) of the MFMA.
55. The audit committee did not respond to the council on the issues raised in the audit reports of the auditor-general, as required by section 166(2)(c) of the MFMA.
56. The audit committee did not advise the council on matters relating to compliance with legislation, as required by section 166(2)(a)(vii) of the MFMA.

57. The audit committee did not meet at least four times a year, as required by section 166(4)(b) of the MFMA.
58. The audit committee did not review the municipality's performance management system and make recommendations to the council, as required by regulation 14(4)(a)(ii) of the MPPMR.

#### **Internal audit**

59. The internal audit unit did not function as required by section 165(2) of the MFMA, in that it did not prepare a risk-based audit plan for the financial year under review, nor did it advise the accounting officer and report to the audit committee on matters relating to loss control.
60. The internal audit unit did not audit the performance measurements on a continuous basis and submitted quarterly reports on their audits to the municipal manager and the audit committee, as required by regulation 14(1)(c) of MPPMR.

#### **Human resource management**

61. The competencies of financial and supply chain management officials were not assessed in a timely manner in order to identify and address gaps in competency levels as required by regulation 13 of the Municipal Regulations on Minimum Competency Levels.
62. The municipality did not develop and adopt appropriate systems, policies and procedures to monitor measure and evaluate performance of staff in contravention of section 67(d) of MSA.

#### **Procurement and contract management**

63. Bid adjudications were not drafted by bid specification committees which were composed of four or more officials of the municipality as required by Supply Chain Management (SCM) regulation 27(3).
64. Bid specifications were not done by committees which were composed in accordance with SCM regulation 29(2).
65. Construction projects awarded to suppliers were not registered with the Construction Industry Development Board (CIDB), as required by section 22 of the CIDB Act and CIDB regulation 18.
66. Goods and services with a transaction value of below R200 000 were procured without obtaining the required price quotations as required by SCM regulation 17(a) & (c).
67. Goods and services of a transaction value above R200 000 were procured without inviting competitive bids, as required by SCM regulation 19(a).
68. Sufficient appropriate audit evidence could not be obtained that contracts and quotations were only awarded to providers whose tax matters have been declared by the South African Revenue Service to be in order as required by SCM regulation 43.
69. Contracts and quotations were awarded to bidders who did not submit a declaration on whether they are employed by the state or connected to any person employed by the state, as required by SCM regulation 13(c).
70. Awards were made to providers whose directors are in the service of other state institutions, in contravention of section 112(j) of MFMA and SCM regulation 44.
71. A list of accredited prospective providers was not in place for procuring goods and services through quotations as required by SCM regulation 14(1)(a).

#### **Expenditure management**

72. Money owing by the municipality was not always paid within 30 days of receiving an invoice or statement, as required by section 65(2)(e) of the MFMA.
73. An adequate management, accounting and information system was not in place which accounted for creditors, as required by section 65(2)(b) of the MFMA.



74. Reasonable steps were not taken to prevent unauthorised expenditure, irregular expenditure, fruitless and wasteful expenditure, as required by section 62(1)(d) of the MFMA.

### **Conditional grants received**

75. The municipality did not evaluate its performance in respect of all programmes funded by the Municipal Infrastructure Grant, Integrated National electrification Programme Grant, Local Government Financial Management Grant and the Municipal Systems Improvement Grant; within two months after the end of the financial year, as required by section 12(5) of the DoRA.

### **Revenue management**

76. An adequate management, accounting and information system was not in place which accounted for debtors, as required by section 64(2)(e) of the MFMA.
77. An effective system of internal control for revenue was not in place, as required by section 64(2)(f) of the MFMA.

### **Asset management**

78. An adequate management, accounting and information system which accounts for assets was not in place, as required by section 63(2)(a) of the MFMA.
79. An effective system of internal control for assets, including an asset register, was not in place, as required by section 63(2)(c) of the MFMA.

### **Liability management**

80. An adequate management, accounting and information system which accounts for liabilities was not in place, as required by section 63(2)(a) of the MFMA.

### **Consequences management**

81. Unauthorised, irregular, fruitless and wasteful expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, in accordance with the requirements of section 32 of the MFMA.

### **Waste water management**

82. The municipality operated its wastewater treatment facility without a license in contravention of section 20(b) of the National Environmental Management Waste Act, 2008 (Act No. 59 of 2008) (NEMWA), section 24(2)(a) of the National Environmental Management Act, 1998 (Act No. 107 of 1998) (NEMA) and section 22(1)(b) of the National Water Act, 1998 (Act No. 36 of 1998) (NWA).
83. The municipality's operational activities at its waste disposal sites and wastewater treatment facility contravened or failed to comply with the requirements of a waste management license, section 67(1)(f) and (h) of the NEMWA and section 151(1)(c) and (i) of the NWA.
84. The municipality's waste management and disposal activities contravened or failed to comply with the requirements of section 28(1) of the NEMA, section 19 of the NWA and sections 16(1)(c) and (d) and 26(1)(b) of the NEMWA.
85. The municipality did not exercise its legislative and executive authority as required by sections 11(3)(l) and (m) of the Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA) by managing, monitoring and enforcing environmental related bylaws to promote a safe and healthy environment.

### **Internal control**

86. I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with laws and regulations. The matters reported below under the fundamentals of internal control are limited to the significant deficiencies that

resulted in the basis for disclaimer of opinion, the findings on the annual performance report and the findings on compliance with laws and regulations included in this report.

## **Leadership**

87. Leadership did not adequately exercise their oversight responsibility regarding financial and performance reporting and compliance and related internal controls, did not sufficiently implement effective HR management to ensure that adequate and sufficiently skilled resources are in place and that performance is monitored, did not adequately establish and communicate policies and procedures to enable and support understanding and execution of internal control objectives, processes and responsibilities, did not sufficiently develop action plans to address internal control deficiencies identified and did not adequately establish an IT governance framework that supports and enables the business, delivers value and improves performance.

## **Financial and performance management**

88. Management did not adequately implement proper record keeping to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting. Internal control over daily and monthly processing and reconciling of transactions does not exist and regular, accurate and complete performance reports that are supported and evidenced by reliable information is not prepared. Furthermore management did not sufficiently review and monitor compliance with applicable laws and regulations and did not design and implement formal controls over IT systems to ensure the reliability of the systems and the availability, accuracy and protection of information.

## **Governance**

89. Despite the internal audit and audit committee functioning during the year, these structures did not sufficiently impact upon the procedures and operations of the entity, as recommendations were not sufficiently addressed by the municipality.

Rustenburg

30 November 2014



**AUDITOR - GENERAL**  
**SOUTH AFRICA**

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